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**To:** Microsoft ATR  
**Date:** 1/24/02 6:22pm  
**Subject:** Microsoft Settlement

----- Original Message -----

-- Reuters (01.23.2002 PST) --

Subject: Surprise Settlement Evenly Splits Microsoft; One Firm To Make Software, Other To Make Patches

Decision Keeps Redmond from Monopolizing  
Massive Microsoft Patch Industry

Redmond, Wash. In a surprise settlement today with nine U.S. states, Microsoft agreed to be split into two independent companies one that will continue to make Microsoft operating systems, browsers, and server software, and another, potentially larger company that will make patches for Microsoft operating systems, browsers, and server software.

Critics immediately charged that the settlement which overrides a previous agreement with the U.S. Department of Justice does nothing to diminish Microsoft's standing as the world's most powerful software company. But industry analysts argued that providing patches for security holes in Microsoft programs is a major, untapped growth industry, and applauded the states for not allowing Redmond to control it.

"Just consider, Microsoft can make an operating system, such as Windows XP, and sell 200 million copies, but each one of those copies is going to need at least five patches to fix security holes, so that's 1 billion patches," said Gartner Group analyst Mitch Ferthing. "That is an enormous, undeveloped market."

Microsoft employees seem to agree, as sources in Redmond described a "mad scramble" among staffers to position themselves for spots at the new company, called Patchsoft. Asked why people would want to leave Microsoft for a startup, the source said the answer was "really quite simple."

"Everyone here is asking themselves, 'Do I want to be part of the problem, or part of the solution?'" he said.

But J.P. Morgan analyst Sherill Walk suspects another motive. "Considering the sheer number of patches we're talking about, I think the new company will become another monopoly, and I believe the people who've jumped ship very well know that."

"Nonsense. It's really all about consumer choice," responded Patchsoft's new co-CEOs, Bill Gates and Steve Ballmer.

But how will Patchsoft make money? Currently, Microsoft issues free patches for problems in Windows XP, SQL Server, Internet Explorer, Outlook, Windows 2000, Flight Simulator, Front Page, Windows Me, Media Player, Passport, NT Server, Windows 98, LAN Manager (for a complete list of MS software needing patches, see [www.support.microsoft.com](http://www.support.microsoft.com)). Under the agreement, Microsoft will no longer issue patches, which Gates said explains the recent five-day outage at Microsoft's upgrade site. "That was planned," he said. "It was a test of the Microsoft No Patch Access system. Went perfectly. No one was able to download anything."

At a press conference to outline the settlement, Connecticut Attorney General Richard Blumenthal pledged to keep a close eye on Patchsoft to ensure it would not overcharge for its services. He also expressed hope that other firms would soon become Certified Microsoft Patch Developers (CMPDs) and challenge the spin-off. Asked if Patchsoft, with so many former Microsoft employees, will have an advantage over potential competitors in the Microsoft patch market, Blumenthal said the settlement prohibits collaboration.

"Patchsoft developers will not have any foreknowledge of bugs or security holes before software is released. They'll just have to be surprised," he said.

"So it will be just like it was when they were at Microsoft," he added.

One Reuters reporter, meanwhile, questioned the long-term viability of Patchsoft. "This seems like a logical split right now, but what if Microsoft's products improve to the extent that patches are needed less frequently, or perhaps not at all?" she asked.

"I'm sorry, I can only respond to serious questions," Blumenthal answered.

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